COMPANY UPDATE

Hap Seng Plantations (HAPL MK)

2Q25 Results Preview: Softer Earnings Expected

We expect HAPL's 2Q25 earnings to come in lower qoq and yoy as production rebounded but was offset by weaker CPO prices as average spot prices declined qoq. We cut our 2025 and 2026 earnings forecasts after adjusting for a lower FFB output growth of 6% while maintaining CPO ASP at RM4,200/tonne. Maintain BUY with a lower target price of RM2.20 (previously RM2.25).

WHAT'S NEW

- **2Q25 results preview.** To recap, Hap Seng Plantations (HAPL) registered a core net profit (after excluding fair value losses on biological assets) of RM35.4m (-42% qoq, +63% yoy) as the results were driven by higher CPO price of RM4,866/tonne (+2% qoq, +21% yoy) despite a lower FFB output (-28% qoq, -11% yoy) due to heavy rain. For 2Q25, we anticipate core earnings to come in lower qoq at RM25m-30m (1Q25: RM35.4m, 2Q24: RM32.2m) as fresh fruit bunch (FFB) output rebounded by 9% qoq but this was offset by weaker CPO prices as average spot prices declined by 14% qoq.
- **Adjust downward our FFB output expectation in 2025.** For 2Q25, HAPL recorded a 3% yoy decline in production growth, with a qoq increase of 9%. Together with 1Q25 production, 1H25 total production only made up 39% of our full-year expectation. Although 2H production will be higher, it will still not be able to offset the weaker-than-expected production in 1H25. With that, we have revised our 2025 production growth assumptions down to 6% yoy from 9% yoy. The weaker production in 1H25 was due to heavy rainfall in 1Q and we expect 2Q output to lag despite improved rainfall trends.
- **Anticipate stable CPO costs.** The costs of production for 2025 could remain stable at RM2,200-2,300/MT (2024: RM2,305/MT), supported by stable fertiliser and labour costs. We note that the company has already tendered its fertiliser application for 2H25 at 10% higher, but given the flat prices in 1H25, fertiliser costs for 2025 are expected to remain flat yoy. The company expects minimal impact from the Feb 25 minimum wage hike. But for 2Q25, the cost would be higher to fully reflect the minimum wage adjustment and also higher fertiliser cost from increased applications in 2Q.
- **2025 earnings expectations.** We forecast the company's 2025 net profit at RM184m (-9% yoy) driven by FFB output of 6% yoy as well as a projected average CPO of RM4,200/tonne (vs RM4,309/tonne). Based on MPOB spot prices, average CPO prices in 2Q25 were 14% lower yoy (RM4,056.3/tonne) while PK prices also decreased by 8% qoq.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	668	752	754	765	769
EBITDA	211	348	312	325	321
Operating profit	126	263	230	244	241
Net profit (rep./act.)	91.4	204	184	196	193
Net profit (adj.)	91.4	204	184	196	193
EPS (sen)	11.4	25.5	23.1	24.5	24.1
PE (x)	11.3	7.5	8.3	7.8	8.0
P/B (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	4.9	3.5	3.4	2.8	2.4
Dividend yield (%)	3.5	6.5	6.0	6.4	6.3
Net margin (%)	13.6	27.1	24.5	25.6	25.1
Net debt/(cash) to equity (%)	(27)	(30)	(36)	(40)	(44)
Interest cover (x)	222.5	0.0	0.0	1.0	2.0
ROE (%)	6.8	10.0	8.8	9.1	8.6
Consensus net profit	-	-	160.0	149.7	146.2
UOBKH/Consensus (x)	-	-	1.2	1.3	1.3

Source: Hap Seng Plantations, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.93
Target Price	RM2.20
Upside	+14%
(Previous TP	*RM2.25)*

COMPANY DESCRIPTION

Pure upstream plantation company with a total landbank of 40,279 ha

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	HAPL MK
Shares issued (m):	799.7
Market cap (RMm):	1,543.4
Market cap (US$m):	349.9
3-mth avg daily t'over (US$m):	0.1

Price Performance (%)

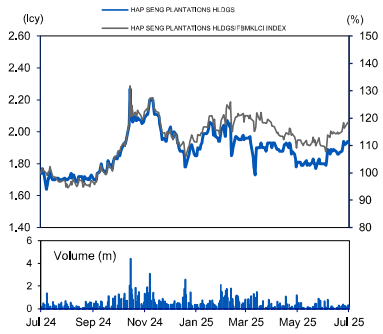
52-week high/low RM2.30 /RM1.60

1mth	3mth	6mth	1yr	YTD
7.2	1.6	4.3	10.9	(3.0)

Major Shareholders	%
Hap Seng Consolidated	69.5
Public Small Fund	1.99

FY23 NAV/Share (RM)	2.47
FY23 Net Cash/Share (RM)	0.36

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Improving weather conditions in Sabah in 2Q25.** HAPL's estates continued to experience rainfall throughout 2Q25, with conditions showing steady improvement compared with Jan-Feb 25. According to the National Centers for Environmental Prediction Global Forecast System (NCEP GFS), ensemble forecast for 4-10 Aug 25, Sabah is expected to receive moderate rainfall in the range of 45-85mm, supporting favourable moisture conditions ahead. These patterns suggest sustained support for palm oil productivity into 3Q25.

EARNINGS REVISION/RISK

- We cut our 2025 and 2026 earnings forecasts by 8% and 3% after adjusting for a lower FFB production growth of 6% (previously 9%) while maintaining CPO ASP of RM4,200/tonne.

VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of RM2.20 (previously RM2.25)** based on 2026F PE of 9x (-1SD to its five year mean) as we roll over the valuation to 2026. We continue to like the company for its inexpensive valuation with net-cash position and an appealing dividend yield of 6%. HAPL is trading at 2025F PE of 8.3x, slightly below -1SD to its five-year mean.

SHARE PRICE CATALYST

- Higher-than-expected realised CPO prices.
- Better-than-expected FFB output.

SUMMARY OF 2Q25 EXPECTATION

	2Q25F	yoy % chg	qoq % chg
Net Profit	RM25-30m	between -7% to -22%	between -15% to -29%
Production	144,273 tonnes	-3%	+9%
MPOB Average CPO Spot Price	RM4,056.3/tonne	+0.4%	-14%
Cost	Higher wage and fertiliser cost	up	up

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

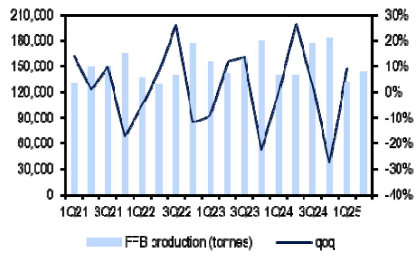
• **Environmental**
– All internal estates are Malaysia Sustainable Palm Oil, Roundtable Sustainable Palm Oil and International Sustainability & Carbon certified.
– Around 0.4% of the FFB purchased from their 11 third-party (independent local outgrowers and smallholders) suppliers are RSPO or MSPO certified as three out of the 11 independent local outgrowers and smallholders have successfully obtained RSPO and MSPO accreditations, while one had obtained the MPSO certification as at Dec 20. These three external independent local outgrowers and smallholders had started to send their crops to the identity-preserved mill in Aug 20. This will inevitably raise HAPL's sustainably certified products in the near future.
– Seven out of 11 independent local outgrowers and smallholders indicated their willingness to participate in activities towards RSPO and MSPO certifications.
• **Social**
– Transparent communication and response to ongoing cases involving the community.
– Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.
– HAPL covers all costs for obtaining legal work permits in Malaysia with the exception of passports, which workers must obtain themselves. Each worker retains his or her own passport and HAPL has discontinued the practice of requesting estate managers to hold workers' travel documents for safekeeping.
• **Governance**
– Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

KEY ASSUMPTIONS

	FY25F
FFB production growth	+6% yoy
CPO Prices	RM4,200/tonne

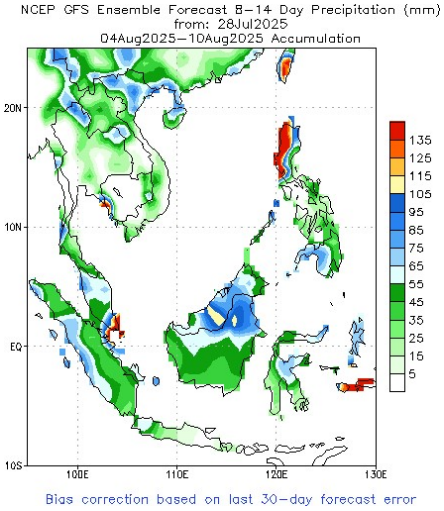
Source: UOB Kay Hian

PRODUCTION TREND



Source: Bursa Malaysia, UOB Kay Hian

NCEP GFS ESEMBLE FORECAST 8-14 DAY PRECIPITATION (FROM 28 JUL 25)



Source: CPC

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2025F	2026F
Net turnover	**752**	**754**	**765**	**769**
EBITDA	348	312	325	321
Deprec. & amort.	85	82	81	80
EBIT	263	230	244	241
Total other non-operating income	3	3	3	3
Associate contributions	0	0	0	0
Net interest income/(expense)	1	1	1	1
Pre-tax profit	**271**	**234**	**248**	**244**
Tax	(63)	(50)	(53)	(53)
Minorities	0	1	1	1
Net profit	**204**	**184**	**196**	**193**
Net profit (adj.)	**204**	**184**	**196**	**193**

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2025F	2026F
Fixed assets	1,722	1,708	1,694	1,680
Other LT assets	0	0	0	0
Cash/ST investment	117	285	437	586
Other current assets	583	567	567	567
Total assets	**2,596**	**2,739**	**2,879**	**3,017**
ST debt	55	69	70	71
Other current liabilities	13	13	13	13
LT debt	0	0	0	0
Other LT liabilities	425	425	425	425
Shareholders' equity	2,103	2,231	2,371	2,507
Minority interest	0	1	2	3
Total liabilities & equity	**2,596**	**2,739**	**2,879**	**3,017**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2025F	2026F
Operating	**234**	**287**	**298**	**294**
Pre-tax profit	260	230	244	241
Tax	(63)	(50)	(53)	(53)
Deprec. & amort.	85	82	81	80
Working capital changes	(51)	11	(2)	(1)
Other operating cashflows	3	15	28	27
Investing	**(166)**	**(26)**	**(49)**	**(49)**
Capex (growth)	(67)	(67)	(67)	(67)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	**(65)**	**(92)**	**(98)**	**(96)**
Dividend payments	(54)	(92)	(98)	(96)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	**3**	**169**	**152**	**149**
Beginning cash & cash equivalent	**136**	**117**	**285**	**437**
Changes due to forex impact	0	1	2	3
Ending cash & cash equivalent	**139**	**285**	**437**	**586**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2025F	2026F
Profitability				
EBITDA margin	46.3	41.3	42.5	41.7
Pre-tax margin	36.0	31.0	32.4	31.8
Net margin	27.1	24.5	25.6	25.1
ROA	8.1	7.1	7.4	7.1
ROE	10.0	8.8	9.1	8.6
Growth				
Turnover	12.6	0.2	1.5	0.5
EBITDA	41.2	26.3	31.9	30.1
Pre-tax profit	74.6	(13.9)	6.2	(1.5)
Net profit	123.8	(9.5)	6.1	(1.5)
Net profit (adj.)	123.8	(9.5)	6.1	(1.5)
EPS	123.4	(9.5)	6.1	(1.5)
Leverage				
Debt to total capital	0	0	0	0
Debt to equity	0	0	0	0
Net debt/(cash) to equity	(29.7)	(35.5)	(39.9)	(43.6)
Interest cover (x)	0.0	0.0	1.0	2.0

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